PERSONAL AND CONFIDENTIAL

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Please read every word of the report below. It is probably the most important story I have ever shared with you. It contains facts that the government is ignoring, facts that will affect your future prosperity and the national welfare.

OIL OUTLOOK: WATCH OUT FOR ANOTHER PRICE EXPLOSION

Our federal policymakers have been lulled into the comfortable assumption that the Organization of Petroleum Exporting Countries' power has been broken, that plenty of oil is available on the world market from independent sources, and, therefore, that OPEC can no longer rig oil prices. These foolish officials are whistling in the cemetery. OPEC has not lost its control over the oil market but has already started to jack up prices again. In other words, OPEC is the economic tail that can now wag the dog; a few desert kingdoms can determine the prosperity of the rest of us. Frankly, I consider this intolerable!

I have sources inside the CIA who have made it their business to master oil economics. They believe OPEC is capable of creating economic turmoil throughout the Western world. This not only will have a devastating impact on the finances of every American but could threaten the security of the United States. Here is the background:

Between 1969 and 1979, the open market price of crude oil rose from $1.20 to $44 a barrel. The effect of this stupendous leap in the cost of the oil the world runs on can be simply put: As the price of energy skyrocketed, consumers had less and less disposable income to buy other goods, which cost more and more to produce. Hence there was a progressive shrinkage of economic activity that went on until the oil price bulge was digested.

The impact of oil inflation was seen even more clearly in the looming crises of international debt and Third World disintegration. Under the classic rules of cartels, whenever the price of a product is forced upward to monopoly heights, the price of other products in its general class must fall--for one reason, because the money that would have purchased them is less available.

Thus the full destructive impact of the oil price explosion, concealed for years, is yet to come. Only when the "debt bomb" explodes or is defused by a bailout from the American taxpayers, with all the further bleeding away of disposable income this implies, can we begin to measure the ultimate cost of the oil catastrophe.

What cataclysmic convergence of events produced this disaster? The official explanation was that the "oil crisis" resulted from declining oil resources overtaken by surging demand, combined with the emergent strength of the Arab-led oil producing nations; thus it was rooted in forces of nature, economics and history that simply could not be resisted by our statesmen but had to be submitted to.

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Balderdash! Instead of an oil shortage, we had the greatest oil surplus in history--a minimum 20 million barrels a day in unused production capacity being sat on by the oil states so they could maintain the price at 120 times the cost of production. Instead of strong Arab leadership, despite the surfeit of wealth and arms, we have an Arab world still inherently fearful, weak and helpless, afraid of Iran's Ayatollah Khomeini, powerless before Israel and totally dependent on the United States for defense against the Soviets.

The incredible truth is that the United States placed in the hands of surprised OPEC regimes the power to reduce output below normal demand. This quickly became the power to raise prices to whatever level the panicked bidding of a leaderless, oil-dependent West would bear. The result was a world-upending revolution, wholly triumphant because it was wholly unopposed and wholly acquiesced in.

Once jacked up, the prices that had been gained by a contrived shortage could be substantially maintained by the restriction of supply to the level necessary to support that price, though this forced the closing of factories and shops all over the consuming world and the progressive stifling of economic growth.

In September 1973, the last month of the old order, the OPEC states produced 33 million barrels a day. OPEC's productive capacity in 1974 reached 38 million barrels a day, a capacity scheduled to rise to well over 50 million barrels a day by 1980, in order to keep pace with the normal consumption growth pattern.

But once the OPEC governments assumed full authority, they never permitted their post-1973 production even to return to the September 1973 level, let alone rise incrementally to the levels planned for the future. OPEC production was choked off at 31 million barrels a day. A CIA analysis noted that the OPEC countries with the largest reserves had "taken steps that have lowered current oil production and limited investment in the expansion of productive capacity. Saudi Arabia, Kuwait and Abu Dhabi have imposed restrictions that have kept output below capacity."

OPEC's actual production was stunted at a ceiling of 31 million barrels a day because that was the maximum the consuming world could afford to buy at $12 a barrel--the price OPEC had decided to exact. After the second great price explosion of 1979-1980, when the $12 price more than tripled, the amount of OPEC oil the consuming world could afford dropped in half--to 17 million barrels a day, and then to 14 million. OPEC dropped its production to those levels--at least 20 million barrels below its deliberately shrunken production capacity--in an effort to maintain the new price.

Keep in mind that the cost of producing a barrel of Middle Eastern oil had risen to perhaps 25 cents after years of regional inflation and falling efficiency. By rigging the price in the $40 range, the OPEC monopoly achieved the greatest transfer of wealth in history from one group of nations to another. What's even more incredible, it was the first time in history that weak nations plundered the strong.

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For the price gouge was successful, not because the cartel was strong--far from it--but because it was never challenged by the consuming West. In those millions of daily barrels, which at a cheaper price could have been purchased to turn profitably the idled wheels of production but were not, would lie a basic cause of unemployment for millions in the industrial West and deepening destitution for hundreds of millions of people in the Third World Nations.

The $44-a-barrel price began to falter, in part, because some OPEC governments cheated on price floors and output ceilings. But behind the scenes, the Saudi Arabian bloc has been controlling the oil flow. These Arab oil kingdoms deliberately allowed the oil glut, which caused the market price to skid. CIA analysts are convinced that the Saudi group wanted to stop U.S. countermeasures.

In the early 1980s, President Reagan moved aggressively into oil development offshore and on federal lands. He also took up the old tasks of filling the Strategic Petroleum Reserve and developing substitute fuels, with a sense of drive.

But by 1985, the Arab strategy had succeeded. As oil prices dropped, Reagan cut back drastically the filling rate of the Strategic Petroleum Reserve. Oil companies and consuming industries followed suit, cutting their stockpiles way down. Nothing of consequence has been accomplished to rescue coal from the doldrums or to subsidize conservation programs, such as home insulation, against the next price explosion. Reagan has even cancelled the subsidized development of synthetic fuels. Because of his anti-regulation ideology, he has also opposed most of the steps needed for damage control during future emergencies--rationing authority, allocation planning, tight oil-sharing accords abroad, controls on panic bidding.

Thus under Ronald Reagan, the United States is unprepared to cope with the next oil squeeze, which CIA analysts believe is coming. But this time, in their judgment, Saudi Arabia will boost the price more slowly, more subtly in order not to alarm the United States. And the Saudi bloc, according to the CIA, has the oil abundance to do it. The Arab states can fix oil prices at any level they wish by suppressing their own production to a fraction of their capacity.

Footnote: CIA Analysts aren't the only ones who believe OPEC will maneuver oil prices back up. Foreigners are quietly buying oil wells at bargain prices from hard-hit owners in Louisiana, Oklahoma and Texas. The Taiwanese are behind many of the purchases. Because of Taiwan's $13 billion trade surplus with the United States last year alone, the Taiwanese have plenty of bucks to sink into depressed American possibilities. They expect to see rising world oil prices drive up the value of their U.S. wells.